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TAGS: [EFIN](#) [ETTC](#) [KTFN](#) [PTER](#) [PREL](#) [ECON](#) [BK](#)
SUBJECT: BOSNIA VULNERABLE TO MONEY LAUNDERING AND
TERRORIST FINANACING

Classified By: JUDITH CEFKIN FOR REASONS 1.4 (b) and (d).

¶1. (U) Summary. Bosnia-Herzegovina (BiH) is vulnerable to money laundering and terrorist financing due to serious deficiencies in the integrity of its anti-money laundering (AML) regime. On paper, BiH's AML regime complies with many Financial Action Task Force (FATF) recommendations, but the regime lacks the sophistication of more developed economies. Banking supervision does not exist at the state (national) level. Banking supervision and examinations take place annually on the entity level. The state-level financial intelligence unit, the Financial Intelligence Department (FID), suffers from lack of analytical capacity and is hampered by bureaucratic, political and legislative obstacles. We believe a recent evaluation by the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) will reach the same conclusions, although the report is not due out until the end of the year. End Summary.

//Bank Supervision//

¶2. (U) While many of the FATF Forty Recommendations and Nine Special Recommendations on Terrorism Financing are legislated in BiH, implementation has been weak. Bank examinations are conducted at the entity level annually. Banks submit to these examinations openly and provide all pertinent information to banking supervisors. If a bank is found violating one of the banking regulations, recommendations are issued by the supervisors and a reexamination of the violating bank takes place approximately six months later. The supervisors return to the offending bank to ensure that the recommendations are followed and, if not, the supervisors can issue sanctions. To date, at least in the Federation, the bank supervisors have not had to sanction any banks.

¶3. (U) One of the largest flaws in the Bosnian AML/CTF regime is the lack of a central authority. Banking supervisors are entity organizations and the prohibitions on the ability of the FID to communicate with law enforcement make it weak. Therefore, there is no central authority in BiH to issue guidance or interpretation of AML/CTF laws. However, the Banking Association, a private group of bankers, does provide monthly training to banks seeking information on the interpretation and implementation of the BiH AML regime. The Banking Association assures that regulations are being followed by its members and often communicates with both the FID and banking supervisors to confirm the validity of the information it sends to its members. However, because there is no professional civil service in BiH a change in the ruling party could change the interpretation of the

regulations.

//Financial Intelligence Department Flaws//

14. (U) The FID, established within the State Investigation and Protection Agency (SIPA) is the financial intelligence unit of BiH. It was established in December 2004 with the passage of the State Law on the Prevention of Money Laundering. Its mandate is limited under the anti-money laundering (AML) legislation to money laundering and terrorist financing, which it counters by receiving, analyzing, investigating and forwarding to the State Prosecutor information on such cases. A limited interpretation of what constitutes money laundering ensures that the FID does not investigate most predicate offenses as defined by the Financial Action Task Force (FATF). A disconnect between the FID and investigating agencies at both the state and entity levels ensures that the FID essentially operates in isolation.

15. (C) FID operations suffer from weak analytical capacity. Its analysts lack the ability to properly analyze financial information from the industry, which disables the State Prosecutor in both the investigation and prosecution of money laundering and terrorist financing crimes. The reasons are partly bureaucratic) the FID is a mixed-style FID, performing both analytical and limited criminal investigative functions. Analysts are civil servants, and as such are paid far less than those with police positions. The lower salary discourages qualified financial experts from accepting positions at the FID. Although most current analysts have degrees in economics or criminal justice, they lack the

needed skills and practical experience required for the analysis of complex financial transaction information. Yet there are also indications that political interference restricts the FID in its ability to analyze financial data from the industry. We have heard of analysts being pressured through the chain of command to bury information on political (or otherwise influential) figures.

16. (C) Law enforcement agencies at all levels show little confidence in the FID, and undermine its legitimacy by directly soliciting the banking industry for financial data, such as Currency Transaction Reports (CTRs) and Suspicious Transaction Reports (STRs). This practice creates the risk of breach of confidence; that criminals and terrorists could be tipped off to investigations. The FID also reports that entity-level police agencies do not request information from the FID when investigating financial crimes in their jurisdictions. Neither does the Criminal Investigative Division (CID) of SIPA (the same organization to which the FID belongs). There are bureaucratic, political and even personal reasons for this, some stemming back to grievances from the war in the 1990s. Politically, the RS is waging a campaign against any cooperation with state institutions, and this extends to anything which would strengthen the FID (Note: In fact, the RS has indicated it wants to set up its own entity-level financial intelligence unit and apply for Egmont membership. End note). In the Federation, the lack of cooperation is driven more by a lack of confidence in the FID's abilities (which is somewhat justified).

17. (U) The parliament recently passed new AML legislation that further weakens the FID. This new Law on the Prevention of Money Laundering and Financing of Terrorist Activities severely limits communication between the FID and law enforcement, which was already poor. Even more disturbingly, the new AML legislation eliminates the requirement for the industry to keep extensive records on Bosnian Politically Exposed Persons (PEPs) and proposes that the industry only keep such records on foreign PEPs. Corruption, embezzlement and tax evasion, problems closely associated with most BiH politicians, will be able to continue without redress if this legislation passes. The law passed as part of a package of legislation needed to qualify BiH for a visa waiver from the EU.

//Comment//

18. (C) The International Community has advocated the creation of unified banking supervision in BiH for years, but political realities have prevented it from becoming a reality. The RS refuses to consider transferring any more competencies to the state level. As for the FID, the USG has provided various forms of assistance, including direct training of analysts and the provision of a financial crimes advisor through the Department of Justice,s International Criminal Investigative Training Assistance Program (ICITAP). Yet bureaucratic, political and legislative obstacles remain that leave it deficient in fulfilling its role in BiH,s anti-money laundering regime. While we can and should continue to assist in improving its analytical capacity, and will be able to tackle some of the bureaucratic obstacles through the continued presence of an ICITAP financial crimes advisor, many of the FID,s shortcomings will require sustained political intervention. In the meantime, we must be aware that BiH remains extremely vulnerable to money laundering and terrorist financing activities. We believe that the recent evaluation by MONEYVAL will reach similar conclusions, according to reports we heard about the visit.
End Comment.
CEFKIN